**Disclosures on Risk Based Capital (Basel II)**

The following detailed qualitative and quantitative disclosures are provided in accordance with Guidelines on Risk Based Capital Adequacy by Bangladesh Bank. The purpose of these requirements is to complement minimum capital requirement and Supervisory review process. These disclosures are intended for more transparent and more disciplined financial market where the participants can assess key information about the Bank's exposure to various risks.

The bank has an approved disclosure policy to observe the disclosure requirement set out by the Bangladesh Bank and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as adopted by the Institution of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Accounting Standards (BAS) where relevant to the bank.

Guidelines on Risk Based Capital Adequacy are structured around the following three aspects or pillars of Basel II:

- Minimum capital requirements to be maintained by a bank against credit, market and operational risk;

- Supervisory Review i.e. Process for assessing overall capital adequacy in relation to a bank's risk profile and a strategy for maintaining its capital at an adequate level;

- Market Discipline i.e. to make public disclosure of information on the bank's risk profiles, capital adequacy and risk management.

**Disclosure Framework**

The disclosure requirements are as per the Guidelines on Risk Based Capital Adequacy (RBCA) for Banks.

**1. Scope of Application**

***Qualitative Disclosures:***

Bank has no subsidiaries and Basel II is applied at the Bank level only.

**2. Capital Structure**

***Qualitative Disclosures:***

Standard Chartered Bank, Bangladesh capital structure consists of Tier I Capital and Tier II Capital. The regulatory capital is broadly classified into three categories – Tier I, Tier II and Tier III. The computation of the amount of core (Tire I) and supplementary (Tier II and Tier III) capitals shall be subject to the following conditions:

- The amount of Tier II Capital will be limited to 100% of the amount of Tier I capital.

- Fifty percent (50%) of revaluation reserves for fixed assets and securities eligible for Tier-2 capital.

- Ten percent (10%) of revaluation reserves for equity instruments eligible for Tier II capital.

- Subordinated debt shall be limited to a maximum of 30% of the amount of Tier I capital.

- Limitation of Tier III: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier III capital shall be limited up to maximum of 250% of a bank's Tier I capital that is available after meeting credit risk capital.

Tier I capital of the bank includes fund deposited with Bangladesh Bank, retained earnings and actuarial gain as other component of Tier I.

Tier II (supplementary) consists of general provision and 50% of revaluation reserve for held to Maturity (HTM) and Held for trading (HFT) securities.

The bank does not have any Tire III capital.

***Quantitative Disclosures:***

The details of capital structure as at 31 December 2013 are provided as under:

| **Tier I :** | **2014(Taka)** | **2013(Taka)** |
|---|---|---|
| Fund Deposited with BB | 2,207,278,944 | 2,203,056,583 |
| General Reserve | 735,905 | 735,905 |
| Retained Earnings | 23,993,257,103 | 20,351,589,014 |
| Actuarial Gain | 22,630,212 | 197,412,699 |
| **Sub-total** | **26,223,902,163** | **22,752,794,201** |

| **Tier II :** | **2014** | **2013** |
|---|---|---|
| General Provision | 3,158,387,114 | 3,174,753,626 |
| Revaluation Reserve for HFT Securities 50% | 100,524,643 | 210,202,589 |
| Amortized Discount on HTM Securities 50% | 139,051,426 | 397,050,563 |
| **Sub-total** | **3,397,963,184** | **3,782,006,778** |

| **Other deductions from Capital:** | **2014** | **2013** |
|---|---|---|
| Deferred Tax Provision for Specific Provision | 669,248,065 | |
| **Sub-total** | **669,248,065** | |

| | | |
|---|---|---|
| **Total Eligible Capital** | **28,952,617,282** | **26,534,800,979** |

## 3. Capital Adequacy

*Qualitative Disclosures:*

Our approach to capital management is driven by our desire to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a three year horizon and are approved by the Country Management Group (CMG). The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy.

The capital plan takes the following into account:

- regulatory capital requirements
- forecast demand for capital to support the credit ratings
- increases in demand for capital due to business growth, market shocks or stresses
- available supply of capital and capital raising options
- internal controls and governance for managing the Bank's risk, performance and capital

The bank uses a capital model to assess the capital demand for material risks, and support our internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modeling process is a key part of our management disciplines.

A strong governance and process framework is embedded in bank's capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Management Committee.

Standardize Approach is followed for computation of capital charge for credit risk, market risk and Basic Indictor Approach for operational risk.

*Quantitative Disclosures:*
Details of Risk Weighted Assets as on 31 December 2014:

| Risk Weighted Assets: | 2014(Taka) | 2013(Taka) |
|---|---|---|
| On Balance Sheet Exposures | 106,737,266,305 | 116,993,859,134 |
| Off Balance Sheet Exposures | 62,224,397,460 | 49,072,246,505 |
| **Credit Risk** | **168,961,663,764** | **166,066,105,639** |
| | | |
| **Market Risk** | **6,644,770,628** | **6,995,949,883** |
| | | |
| **Operational Risk** | **33,788,024,221** | **30,178,388,876** |
| | | |
| **Total Risk Weighted Assets** | **209,394,458,613** | **203,240,444,398** |

| | | |
|---|---|---|
| Capital requirement for Credit Risk | 16,896,166,376 | 16,606,610,564 |
| Capital requirement for Market Risk | 664,477,063 | 699,594,988 |
| Capital requirement for Operational Risk | 3,378,802,422 | 3,017,838,888 |
| **Minimum Capital Requirement** | **20,939,445,861** | **20,324,044,440** |

| | | |
|---|---|---|
| Capital Adequacy Ratio | 13.83% | 13.06% |
| Tier I Capital Ratio | 12.52% | 11.20% |

**Risk management**

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank. Through the risk management framework we manage enterprise-wide risks, with the objective of maximizing risk-adjusted returns while remaining within our risk appetite. As part of this framework, we use a set of principles that describe the risk management culture we wish to sustain:

- **Balancing risk and return:** Risk is taken in support of the requirements of our stakeholders, in line with our strategy and within our risk appetite

- **Responsibility:** It is the responsibility of all employees to ensure that risk-taking is disciplined and focused. We take account of our social responsibilities and our commitments to customers in taking risk to produce a return.

- **Accountability:** Risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported.

- **Anticipation:** We seek to anticipate future risks and ensure awareness of all known risks.

- **Competitive advantage:** We seek to achieve competitive advantage through efficient and effective risk management and control.

**4. Credit Risk**

***Qualitative Disclosures:***

Credit risk is the potential for loss due to failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms.

Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

A comprehensive framework is in place for the management of counterparty credit risk. This includes a structured process for the delegation of credit approval authority and for monitoring compliance with appetite. Policy and procedures are defined to support credit underwriting activities at all levels of the Group. These policies are defined at 3 levels-Group, Business and Country level.

All credit decisions are subject to underwriting standards which mandate defined processes and procedures for performing credit checks and detailed due diligence reviews. Systems and controls are in place to monitor collateral value and loan covenants. Each counterparty is also required to have an approved limit in place prior to drawdown of funds. Limit excesses are actively managed and subject to reporting and escalation.

Counterparties are subject to credit rating and these ratings are reviewed on a regular basis. Active monitoring of account level activity and limit utilization trends help to inform the early alert and risk trigger mechanisms. Potential problem accounts are investigated, monitored and appropriate action is taken. Standing Committees dedicated to account and portfolio monitoring supported by portfolio information reports are a well established discipline. The portfolio is monitored from the point of view of industry concentrations, risk grade distribution and tenor and security profiles amongst other parameters.

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions. The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

Past dues and impaired exposures are defined in accordance with the relevant Bangladesh Bank regulations. Specific and general provisions are computed periodically in accordance with the Bangladesh Bank regulations.

*Quantitative Disclosures:*

Details of Credit Risk as on 31 December 2014:

| **Gross credit risk exposures:** | **2014(Taka)** | **2013(Taka)** |
|---|---:|---:|
| Funded | 180,441,904,758 | 201,295,347,930 |
| Non-funded | 135,873,307,082 | 123,161,277,029 |
| **Total** | **316,315,211,840** | **324,456,624,959** |
| **Distribution of risk exposure by claims:** | | |
| Cash and cash equivalents | 2,572,999,553 | 2,919,174,358 |
| Claims on Sovereigns and Central Bank | 13,166,105,596 | 15,902,742,447 |
| Claims on Bank | 18,700,487,849 | 35,987,871,353 |
| Investments | 24,642,185,873 | 17,213,973,301 |
| Claims on Corporate | 63,629,040,704 | 68,227,646,924 |
| Claims on Consumer and SME Loan | 47,049,026,331 | 51,582,992,122 |
| Fixed Assets | 1,036,790,794 | 1,109,823,016 |
| Others Assets | 9,645,268,058 | 8,351,124,409 |
| Off Balance sheet items | 135,873,307,082 | 123,161,277,029 |
| **Total** | **316,315,211,840** | **324,456,624,959** |

| **Credit Risk Mitigation:** | **2014(Taka)** | **2013(Taka)** |
|---|---:|---:|
| Claims secured by financial collateral | 1,818,474,849 | 2,645,815,334 |
| Net exposures after the application of haircuts<br>Claims secured by eligible Guarantee | 1,094,808,734 | 1,185,119,012 |

**Geograhical Distribution of Credit Exposure:**

| 2014 | Dhaka BDT | Chittagong BDT | Narayangonj BDT | Khulna BDT | Sylhet BDT | Bogra BDT | Total BDT |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 1,959,601,669 | 408,593,074 | 29,313,799 | 100,915,827 | 51,487,183 | 23,088,001 | 2,572,999,553 |
| Claims on Sovereigns and Central Bank | 13,166,105,596 | | | | | | 13,166,105,596 |
| Claims on Banks | 18,700,487,849 | | | | | | 18,700,487,849 |
| Invetments | 24,642,185,873 | | | | | | 24,642,185,873 |
| Claims on Corporate | 55,055,818,030 | 7,788,222,674 | - | - | - | 785,000,000 | 63,629,040,704 |
| Claims on Consumer and SME Loans | 38,394,278,961 | 7,031,183,996 | 489,610,259 | 308,491,025 | 589,754,728 | 235,707,362 | 47,049,026,331 |
| Fixed Assets | 1,023,135,160 | 8,401,598 | 1,827,553 | 1,337,849 | 1,994,659 | 93,975 | 1,036,790,794 |
| Others Assets | (578,314,282) | 9,019,660,765 | 601,691,951 | 506,195,816 | 576,362,359 | (480,328,551) | 9,645,268,058 |
| **Total on-balance sheet Items** | **152,363,298,856** | **24,256,062,107** | **1,122,443,562** | **916,940,517** | **1,219,598,929** | **563,560,787** | **180,441,904,758** |
| Off-balance Sheet Items | 104,154,287,536 | 31,719,019,546 | | | | | 135,873,307,082 |
| **Total** | **256,517,586,392** | **55,975,081,653** | **1,122,443,562** | **916,940,517** | **1,219,598,929** | **563,560,787** | **316,315,211,840** |

| 2013 | Dhaka BDT | Chittagong BDT | Narayangonj BDT | Khulna BDT | Sylhet BDT | Bogra BDT | Total BDT |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,352,261,851 | 398,525,247 | 31,530,853 | 54,956,738 | 51,635,626 | 30,264,043 | 2,919,174,358 |
| Claims on Sovereigns and Central Bank | 15,902,742,447 | | | | | | 15,902,742,447 |
| Claims on Banks | 35,987,871,353 | | | | | | 35,987,871,353 |
| Invetments | 17,213,973,301 | | | | | | 17,213,973,301 |
| Claims on Corporate | 59,997,064,374 | 7,850,582,550 | - | - | - | 380,000,000 | 68,227,646,924 |
| Claims on Consumer and SME Loans | 42,651,636,810 | 7,040,213,740 | 516,060,620 | 392,081,958 | 697,158,138 | 285,840,856 | 51,582,992,122 |
| Fixed Assets | 1,086,356,982 | 12,702,462 | 2,544,205 | 1,950,686 | 6,099,864 | 168,817 | 1,109,823,016 |
| Others Assets | (617,767,428) | 7,452,799,438 | 703,666,051 | 429,665,532 | 616,274,995 | (233,514,179) | 8,351,124,409 |
| **Total on-balance sheet Items** | **174,574,139,690** | **22,754,823,437** | **1,253,801,729** | **878,654,914** | **1,371,168,623** | **462,759,537** | **201,295,347,930** |
| Off-balance Sheet Items | 93,981,429,344 | 29,179,847,685 | | | | | 123,161,277,029 |
| **Total** | **268,555,569,034** | **51,934,671,122** | **1,253,801,729** | **878,654,914** | **1,371,168,623** | **462,759,537** | **324,456,624,959** |

**Industry Distribution of Exposure:**

| 2014 | Banks & FI | Agriculture, hunting, forestry and fishing | Manufacturing | Electricity, gas and water | Commerce | Transport and communications | Community, social and personal services | Financing, insurance and business service | Retail and SME | Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT |
| Cash and cash equivalents | 2,572,999,553 | | | | | | | | | | 2,572,999,553 |
| Claims on Sovereigns and Central Bank | 13,166,105,596 | | | | | | | | | | 13,166,105,596 |
| Claims on Banks | 18,700,487,849 | | | | | | | | | | 18,700,487,849 |
| Investments | | | | | | | | | | 24,642,185,873 | 24,642,185,873 |
| Claims on Corporate | | 3,675,833,029 | 39,891,833,633 | 1,417,226,265 | 4,539,550,539 | 6,834,376,764 | 5,795,414,112 | 1,474,806,362 | | | 63,629,040,704 |
| Claims on Consumer and SME Loans | | | | | | | | | 47,049,026,331 | | 47,049,026,331 |
| Fixed Assets | | | | | | | | | | 1,036,790,794 | 1,036,790,794 |
| Others Assets | | | | | | | | | | 9,645,268,058 | 9,645,268,058 |
| **Total on-balance sheet Items** | **34,439,592,998** | **3,675,833,029** | **39,891,833,633** | **1,417,226,265** | **4,539,550,539** | **6,834,376,764** | **5,795,414,112** | **1,474,806,362** | **47,049,026,331** | **35,324,244,725** | **180,441,904,758** |
| Off-balance Sheet Items | 22,590,111,545 | | | | | | | | | 113,283,195,537 | 135,873,307,082 |
| **Total** | **57,029,704,543** | **3,675,833,029** | **39,891,833,633** | **1,417,226,265** | **4,539,550,539** | **6,834,376,764** | **5,795,414,112** | **1,474,806,362** | **47,049,026,331** | **148,607,440,262** | **316,315,211,840** |

| 2013 | Banks & FI | Agriculture, hunting, forestry and fishing | Manufacturing | Electricity, gas and water | Commerce | Transport and communications | Community, social and personal services | Financing, insurance and business service | Retail and SME | Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT | BDT |
| Cash and cash equivalents | 2,919,174,358 | | | | | | | | | | 2,919,174,358 |
| Claims on Sovereigns and Central Bank | 15,902,742,447 | | | | | | | | | | 15,902,742,447 |
| Claims on Banks | 35,987,871,353 | | | | | | | | | | 35,987,871,353 |
| Investments | | | | | | | | | | 17,213,973,301 | 17,213,973,301 |
| Claims on Corporate | | 3,896,349,247 | 27,984,543,059 | 966,509,182 | 6,239,811,057 | 21,476,390,151 | 6,139,628,572 | 1,524,415,656 | | | 68,227,646,924 |
| Claims on Consumer and SME Loans | | | | | | | | | 51,582,992,122 | | 51,582,992,122 |
| Fixed Assets | | | | | | | | | | 1,109,823,016 | 1,109,823,016 |
| Others Assets | | | | | | | | | | 8,351,124,409 | 8,351,124,409 |
| **Total on-balance sheet Items** | **54,809,788,158** | **3,896,349,247** | **27,984,543,059** | **966,509,182** | **6,239,811,057** | **21,476,390,151** | **6,139,628,572** | **1,524,415,656** | **51,582,992,122** | **26,674,920,726** | **201,295,347,930** |
| Off-balance Sheet Items | 22,450,136,517 | | | | | | | | | 100,711,140,512 | 123,161,277,029 |
| **Total** | **77,259,924,675** | **3,896,349,247** | **27,984,543,059** | **966,509,182** | **6,239,811,057** | **21,476,390,151** | **6,139,628,572** | **1,524,415,656** | **51,582,992,122** | **127,386,061,238** | **324,456,624,959** |

**Maturity Breakdown of Credit Exposure:**

2014

| Details | Maturity up to 1 month | Within 1 to 3months | Within 3 to 12 months | Within 1 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| | BDT | BDT | BDT | BDT | BDT | BDT |
| Cash and cash equivalents | 2,572,999,553 | | | | | 2,572,999,553 |
| Claims on Sovereigns and Central Bank | 13,166,105,596 | | | | | 13,166,105,596 |
| Claims on Banks | 18,700,487,849 | | | | | 18,700,487,849 |
| Investments | 720,966,670 | 3,218,506,654 | 6,421,797,520 | 13,900,181,341 | 380,733,688 | 24,642,185,873 |
| Claims on Corporate | 22,761,309,864 | 23,858,136,627 | 11,150,155,324 | 5,122,935,569 | 736,503,320 | 63,629,040,704 |
| Claims on Consumer and SME Loans | 9,291,776,574 | 3,049,326,778 | 9,785,621,071 | 18,704,748,782 | 6,217,553,126 | 47,049,026,331 |
| Fixed Assets | | | | | 1,036,790,794 | 1,036,790,794 |
| Others Assets | 8,630,565,619 | | | | 1,014,702,439 | 9,645,268,058 |
| **Total on-balance sheet Items** | **75,844,211,725** | **30,125,970,059** | **27,357,573,915** | **37,727,865,692** | **9,386,283,367** | **180,441,904,758** |
| Off-balance Sheet Items | 92,913,606,870 | 22,811,298,292 | 12,157,502,238 | 7,990,899,682 | | 135,873,307,082 |
| **Total** | **168,757,818,595** | **52,937,268,351** | **39,515,076,153** | **45,718,765,374** | **9,386,283,367** | **316,315,211,840** |

| 2013<br>Details | Maturity up to 1 month<br>BDT | Within 1 to 3months<br>BDT | Within 3 to 12 months<br>BDT | Within 1 to 5 Years<br>BDT | Over 5 Years<br>BDT | Total<br>BDT |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,919,174,358 | | | | | 2,919,174,358 |
| Claims on Sovereigns and Central Bank | 14,174,682,661 | | | | 1,728,059,786 | 15,902,742,447 |
| Claims on Banks | 35,987,871,353 | | | | | 35,987,871,353 |
| Investments | 8,578,995,378 | 41,382,862 | 3,964,107,298 | 4,248,867,117 | 380,620,646 | 17,213,973,301 |
| Claims on Corporate | 23,633,807,551 | 28,893,858,008 | 9,854,002,078 | 5,038,655,308 | 807,323,979 | 68,227,646,924 |
| Claims on Consumer and SME Loans | 10,383,075,250 | 3,409,596,972 | 10,909,991,315 | 21,269,741,779 | 5,610,586,806 | 51,582,992,122 |
| Fixed Assets | | | | | 1,109,823,016 | 1,109,823,016 |
| Others Assets | 8,162,088,822 | | | | 189,035,587 | 8,351,124,409 |
| **Total on-balance sheet Items** | **103,839,695,373** | **32,344,837,842** | **24,728,100,691** | **30,557,264,204** | **9,825,449,820** | **201,295,347,930** |
| Off-balance Sheet Items | 81,003,260,897 | 22,218,558,013 | 11,726,291,158 | 8,213,166,961 | | 123,161,277,029 |
| **Total** | **184,842,956,270** | **54,563,395,855** | **36,454,391,849** | **38,770,431,165** | **9,825,449,820** | **324,456,624,959** |

| | | |
|---|---|---|
| **Gross non performing assets (NPAs)**<br>Non Performing asset (NPAs) to outstanding loan and advance | 5.37% | 4.74% |
| **Movement of non performing assets (NPAs)** | | |
| Opening balance | 5,688,363,271 | 4,000,137,744 |
| Net movement during the year | 253,207,283 | 1,688,225,528 |
| Closing balance | 5,941,570,554 | 5,688,363,271 |
| **Movement of specific provision for (NPAs)** | | |
| Opening balance of Specific Provision | 4,111,954,121 | 3,146,239,305 |
| Written off during the period | (550,454,497) | (713,858,235) |
| Recovers during the period | (271,643,598) | (657,093,735) |
| Provision made during the period | 1,179,560,541 | 2,336,666,786 |
| **Closing Balance of Specific Provision** | **4,469,416,567** | **4,111,954,121** |

**5. Equities: Disclosures for Banking Book Positions**

The bank does not hold trading position in equities.

**6. Interest Rate Risk in the Banking Book (IRRBB)**

Discussed in the next section under Market Risk.

**7. Market Risk**

***Qualitative Disclosures:***

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It covers interest rate risk, currency exchange rate risk, commodity price risk and equity price risk in the Trading Book.

The Market Risk Limits Policy sets the parameters for managing market risk. The Credit Risk Committee, in conjunction with Group Market Risk, provides market risk oversight, reporting and management of the market risk profile.

The Bank's internal market risk analysis is based on the Bank's value at risk ("VaR") models which simulates potential losses based on historical observation of 260 days (1 year) and scaled up to a confidence level of 99.97% with a three month holding period.. This is supplemented by other limits like Tenor and NOP limits as appropriate to ensure that the activity is run in a controlled manner.

*Quantitative Disclosures:*

Details of Market Risk as on 31 December 2014:

| Capital requirements for: | Amount in BDT 2014 | Amount in BDT 2013 |
|---|---|---|
| Interest rate risk | 482,216,529 | 540,351,812 |
| Equity position risk | - | - |
| Foreign exchange risk | 182,260,534 | 159,243,176 |
| Commodity risk | | |
| **Total** | **664,477,063** | **699,594,988** |

**8. Operational Risk**

*Qualitative Disclosures:*

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. It is the Bank's objective to minimize exposure to operational risks, subject to cost trade-offs. This objective is ensured through a framework of policies and procedures that drive risk identification, assessment, control and monitoring at business / function, country levels.

Responsibility for the management of operational risks rests with the business and functional management as an integral part of their role. An independent Operational Risk function within the Group Risk function works alongside business and functional management, to ensure operational risk exposures are managed within acceptable risk tolerance limits. Group Operational Risk is responsible for setting the operational risk policy, defining standards for measurement and for the operational risk capital calculation.

Governance over operational risks is ensured through a defined structure of risk committees at group, business function and country levels. Country Operational Risk Committees ("CORC") have the responsibility for oversight of operational risks and significant issues at a country level. The monthly CORC process ensures that operational risks, losses and results of assurance reviews are managed within acceptable risk tolerance limits.

The bank's Pillar I approach is Basic Indicator Approach (BIA) as set out in the Guidelines on Risk Based Capital Adequacy.

The bank proactively monitors its exposure to material loss events by leveraging on internal experience (via risks and losses) and industry experience. The types of events that could result in a material operational risk loss / business disruption include:

- Internal and external fraud.
- Damage to physical assets.
- Business disruption and system failures.
- Failure in execution, delivery and process management.

*Quantitative Disclosures:*

Capital requirement for Operational risk as on 31 December 2014 was BDT 3,378,802,422

**Liquidity risk**

Liquidity risk is the potential that the Bank either does not have sufficient liquid financial resources available to meet all its obligations as they fall due, or can only access these financial resources at excessive cost. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by and in compliance with Group liquidity policies and local regulatory requirements. Group Treasury and GMR propose and oversee the implementation of policies and other controls relating to the above risks.

**Disclosures on Risk Based Capital (Basel II) – 2012 - 2011**

The following detailed qualitative and quantitative disclosures are provided in accordance with Guidelines on Risk Based Capital Adequacy by Bangladesh Bank. The purpose of these requirements is to complement minimum capital requirement and Supervisory review process. These disclosures are intended for more transparent and more disciplined financial market where the participants can assess key information about the Bank's exposure to various risks.

The bank has an approved disclosure policy to observe the disclosure requirement set out by the Bangladesh Bank and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as adopted by the Institution of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Accounting Standards (BAS) where relevant to the bank.

Guidelines on Risk Based Capital Adequacy are structured around the following three aspects or pillars of Basel II:

- Minimum capital requirements to be maintained by a bank against credit, market and operational risk;

- Supervisory Review i.e. Process for assessing overall capital adequacy in relation to a bank's risk profile and a strategy for maintaining its capital at an adequate level;

- Market Discipline i.e. to make public disclosure of information on the bank's risk profiles, capital adequacy and risk management.

**1. Scope of Application**

***Qualitative Disclosures:***

Bank has no subsidiaries and Basel II is applied at the Bank level only.

**2. Capital Structure**

***Qualitative Disclosures:***

Standard Chartered Bank, Bangladesh capital structure consists of Tier I Capital and Tier II Capital. The regulatory capital is broadly classified into three categories – Tier I, Tier II and Tier III. The computation of the amount of core (Tire I) and supplementary (Tier II and Tier III) capitals shall be subject to the following conditions:

- The amount of Tier II Capital will be limited to 100% of the amount of Tier I capital.

- Fifty percent (50%) of revaluation reserves for fixed assets and securities eligible for Tier-2 capital.

- Ten percent (10%) of revaluation reserves for equity instruments eligible for Tier II capital.

- Subordinated debt shall be limited to a maximum of 30% of the amount of Tier I capital.

- Limitation of Tier III: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier III capital shall be limited up to maximum of 250% of a bank's Tier I capital that is available after meeting credit risk capital.

Tier I capital of the bank includes fund deposited with Bangladesh Bank, actuarial gain, and retained earnings. Tier I capital, also called 'Core capital' of the bank.

Tier II (supplementary) consists of general provision and 50% of revaluation reserve for held to Maturity (HTM) and Held for trading (HFT) securities.

The bank does not have any Tire III capital.

*Quantitative Disclosures:*

The details of capital structure as at 31 December 2012 are provided as under:

| **Tier I :** | **2012** | **2011** |
|---|---|---|
| Fund Deposited with BB | 2,246,727,963 | 2,296,618,578 |
| General Reserve | 735,905 | 735,905 |
| Retained Earnings | 18,298,549,956 | 15,353,105,283 |
| Actuarial Gain | 200,085,700 | 2,806,650 |
| **Sub-total** | **20,746,099,524** | **17,653,266,416** |

| **Tier II :** | **2012** | **2011** |
|---|---|---|
| General Provision | 3,061,743,000 | 2,690,507,000 |
| Revaluation Reserve for HFT Securities 50% | 13,739,761 | 26,100,155 |
| Amortized Discount on HTM Securities 50% | 323,148,145 | 1,93,980,013 |
| **Sub-total** | **3,398,630,906** | **2,910,587,168** |

| | | |
|---|---|---|
| **Total** | **24,144,730,430** | **20,563,853,584** |

**3. Capital Adequacy**

*Qualitative Disclosures:*

Our approach to capital management is driven by our desire to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a three year horizon and are approved by the Management Committee (MANCO). The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy.

The capital plan takes the following into account:

- regulatory capital requirements
- forecast demand for capital to support the credit ratings
- increases in demand for capital due to business growth, market shocks or stresses
- available supply of capital and capital raising options
- internal controls and governance for managing the Bank's risk, performance and capital

The bank uses a capital model to assess the capital demand for material risks, and support our internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modeling process is a key part of our management disciplines.

A strong governance and process framework is embedded in bank's capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Management Committee.

Standardize Approach is followed for computation of capital charge for credit risk, market risk and Basic Indictor Approach for operational risk.

*Quantitative Disclosures:*

Details of Risk Weighted Assets as on 31 December 2012:

| **Risk Weighted Assets:** | **2012** | **2011** |
|---|---|---|
| On Balance Sheet Exposures | 109,419,137,296 | 94,599,425,410 |
| Off Balance Sheet Exposures | 51,667,437,266 | 39,013,026,933 |
| **Credit Risk** | **161,086,574,562** | **133,612,452,343** |
| | | |
| **Market Risk** | **2,015,307,247** | **659,866,427** |
| | | |
| **Operational Risk** | **26,263,187,788** | **21,003,250,485** |
| | | |
| **Total Risk Weighted Assets** | **189,365,069,597** | **155,275,569,255** |

| | | |
|---|---|---|
| Capital requirement for Credit Risk | 16,108,657,456 | 13,361,245,234 |
| Capital requirement for Market Risk | 201,530,725 | 65,986,643 |
| Capital requirement for Operational Risk | 2,626,318,779 | 2,100,325,049 |
| **Minimum Capital Requirement** | **18,936,506,960** | **15,527,556,926** |

| | | |
|---|---|---|
| Capital Adequacy Ratio | 12.75% | 13.24% |
| Tier I Capital Ratio | 10.96% | 11.37% |

**Risk management**

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank. Through the risk management framework Standard Chartered manages enterprise-wide risks, with the objective of maximizing risk-adjusted returns while remaining within the Group's risk appetite. As part of this framework, the Group uses a set of principles. The Bank's Risk Management Principles overlay all risk policy and decision-making. These principles comprise five statements of intent that describe the Bank's approach to the management of risk and the risk culture that the Bank wishes to sustain:

- **Balancing risk and return:** The Bank takes risk in line with the requirements of stakeholders and within our risk appetite, consistent with our approved strategy but avoids taking risks which have a material probability of causing financial distress to the Bank's or its clients or customers.

- **Responsibility:** The Bank takes responsibility to ensure risk-taking is disciplined and focused, particularly within our area of authority and takes account of our social responsibilities and our commitments to customers in taking risk to produce a return.

- **Accountability:** The Bank only takes risk within agreed authorities and where there is appropriate infrastructure and resource; risk-taking is transparent, controlled and reported.

- **Anticipation:** The Bank anticipates material future risks and ensure awareness of all known risk.

- **Competitive advantage:** The Bank seeks competitive advantage through efficient and effective risk management and control.

**4. Credit Risk**

***Qualitative Disclosures:***

Credit risk is the potential for loss due to failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms.

Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

A comprehensive framework is in place for the management of counterparty credit risk. This includes a structured process for the delegation of credit approval authority and for monitoring compliance with appetite. Policy and procedures are defined to support credit underwriting activities at all levels of the Group. These policies are defined at 3 levels-Group, Business and Country level.

All credit decisions are subject to underwriting standards which mandate defined processes and procedures for performing credit checks and detailed due diligence reviews. Systems and controls are in place to monitor collateral value and loan covenants. Each counterparty is also required to have an approved limit in place prior to drawdown of funds. Limit excesses are actively managed and subject to reporting and escalation.

Counterparties are subject to credit rating and these ratings are reviewed on a regular basis. Active monitoring of account level activity and limit utilization trends help to inform the early alert and risk trigger mechanisms. Potential problem accounts are investigated, monitored and appropriate action is taken. Standing Committees dedicated to account and portfolio monitoring supported by portfolio information reports are a well established discipline. The portfolio is monitored from the point of view of industry concentrations, risk grade distribution and tenor and security profiles amongst other parameters.

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions. The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

Past dues and impaired exposures are defined in accordance with the relevant Bangladesh Bank regulations. Specific and general provisions are computed periodically in accordance with the Bangladesh Bank regulations.

*Quantitative Disclosures:*

Details of Credit Risk as on 31 December 2012:

| **Gross credit risk exposures:** | **2012** | **2011** |
|---|---|---|
| Funded | 199,627,722,780 | 167,415,121,255 |
| Non-funded | 97,004,048,665 | 75,119,252,903 |
| **Total** | **296,631,771,445** | **242,534,374,158** |
| **Distribution of risk exposure by claims:** | | |
| Cash and cash equivalents | 1,968,985,979 | 2,270,253,028 |
| Claims on Sovereigns and Central Bank | 48,087,287,166 | 32,391,586,819 |
| Claims on Banks | 24,738,700,780 | 22,673,538,243 |
| Claims on Corporate | 62,557,783,126 | 51,023,718,874 |
| Claims on Medium Enterprise | 6,797,256,554 | 7,699,388,135 |
| Claims on Retail Portfolio and Small Enterprises | 6,845,865,816 | 4,722,609,570 |
| Claims on Consumer Loans | 22,105,700,724 | 21,577,911,686 |
| Claims secured by residential properties | 11,393,733,093 | 11,752,753,481 |
| Claims secured by commercial real estate | 2,041,092,474 | 1,929,424,290 |
| Past due loans & NPLs | 4,910,340,251 | 3,713,612,704 |
| Others Assets | 8,180,976,816 | 7,658,821,692 |
| Off Balance sheet items | 97,004,048,665 | 75,119,252,903 |
| **Total** | **296,631,771,445** | **242,532,871,424** |

| Credit Risk Mitigation: | 2012 | 2011 |
|---|---|---|
| Claims secured by financial collateral | 15,151,004,532 | 14,524,534,087 |
| Net exposures after the application of haircuts<br>Claims secured by eligible Guarantee | 11,507,529,566 | 8,646,162,819 |

| | | |
|---|---|---|
| **Gross non performing assets (NPAs)**<br>Non Performing asset (NPAs) to outstanding loan and advance | 3.43% | 3.21% |
| **Movement of non performing assets (NPAs)** | | |
| Opening balance | 3,292,258,710 | 2,561,628,278 |
| Net movement during the year | 707,879,033 | 730,630,432 |
| Closing balance | 4,000,137,744 | 3,292,258,710 |
| **Movement of specific provision for (NPAs)** | | |
| Opening balance of Specific Provision | 2,760,911,848 | 2,179,827,402 |
| Written off during the period | (344,448,720) | (32,389,073) |
| Recovers during the period | (458,210,110) | (368,267,387) |
| Provision made during the period | 1,187,986,287 | 981,740,906 |
| **Closing Balance of Specific Provision** | **3,146,239,305** | **2,760,911,848** |

**5. Equities: Disclosures for Banking Book Positions**

The bank does not hold trading position in equities.

**6. Interest Rate Risk in the Banking Book (IRRBB)**

Discussed in the next section under Market Risk.

**7. Market Risk**

*Qualitative Disclosures:*

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It covers both Price Risk in the Trading Book and Interest Rate Risk in Banking Book (IRRBB).

The trading activities in SCB Bangladesh are handled by the Financial Markets team with the main focus on the FX Trading desk that acts principally to support the client franchise business. The Rates trading desk trades in BDT bonds.

VAR is used as the primary measure for controlling the market risk. It is computed using the historical simulation method with 97.5% confidence interval and a one day holding period. This is supplemented by other limits like PV01, Tenor and NOP limits as appropriate to ensure that the activity is run in a controlled manner.

A daily report on the VAR and PV01 is circulated to the traders and the Head of Global Markets. The Traders are required to operate within approved limits which are reviewed at least once annually. Traders are encouraged to seek pre-approvals where they feel a proposed transaction can exceed the limits.

The Bank uses the standardized (market risk) approach to calculate market risk for the trading book exposures for the purpose of regulatory reporting. Trading book consists of positions in financial instruments held with trading intent or in order to hedge other elements of the Trading Book. A capital charge will be applicable for financial instruments which are free from any restrictive covenants on tradability, or able to be hedge completely. Generally, investments in 'Held for Trading' portfolios are focal parts of the Trading Book.

*Quantitative Disclosures:*

Details of Market Risk as on 31 December 2012:

| **Capital requirements for:** | **Amount in BDT 2012** | **Amount in BDT 2011** |
|---|---:|---:|
| Interest rate risk | 134,245,381 | 24,476,256 |
| Equity position risk | - | - |
| Foreign exchange risk | 67,285,344 | 41,510,387 |
| Commodity risk | | |
| **Total** | **201,530,725** | **65,986,643** |

**8. Operational Risk**

*Qualitative Disclosures:*

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. It is the Bank's objective to minimize exposure to operational risks, subject to cost trade-offs. This objective is ensured through a framework of policies and procedures that drive risk identification, assessment, control and monitoring at business / function, country levels.

Responsibility for the management of operational risks rests with the business and functional management as an integral part of their role. An independent Operational Risk function within the Group Risk function works alongside business and functional management, to ensure operational risk exposures are managed within acceptable risk tolerance limits. Group Operational Risk is responsible for setting the operational risk policy, defining standards for measurement and for the operational risk capital calculation.

Governance over operational risks is ensured through a defined structure of risk committees at group, business function and country levels. Country Operational Risk Committees ("CORC") have the responsibility for oversight of operational risks and significant issues at a country level. The monthly CORC process ensures that operational risks, losses and results of assurance reviews are managed within acceptable risk tolerance limits.

The bank's Pillar I approach is Basic Indicator Approach (BIA) as set out in the Guidelines on Risk Based Capital Adequacy.

The bank proactively monitors its exposure to material loss events by leveraging on internal experience (via risks and losses) and industry experience. The types of events that could result in a material operational risk loss / business disruption include:

- Internal and external fraud.
- Damage to physical assets.
- Business disruption and system failures.
- Failure in execution, delivery and process management.

*Quantitative Disclosures:*

Capital requirement for Operational risk as on 31 December 2012 was BDT 2,626,318,779

**Liquidity risk**

Liquidity risk is the potential that the Bank either does not have sufficient liquid financial resources available to meet all its obligations as they fall due, or can only access these financial resources at excessive cost. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by and in compliance with Group liquidity policies and local regulatory requirements. Group Treasury and GMR propose and oversee the implementation of policies and other controls relating to the above risks.